

CONSULTATION PAPER - DOWNSTREAM PETROLEUM INDUSTRY

Background

The downstream petroleum industry comprises of the importation and refining of crude oil as well as the importation, exportation, distribution, supply and sale of petroleum products such as petrol, diesel, kerosene, furnace oil, liquefied petroleum gas, marine fuel, aviation fuel, naphtha, bitumen as well as other mineral oil products and lubricant oil including greases. It is primarily governed by the Ceylon Petroleum Corporation Act, No. 28 of 1961 as amended and the Petroleum Products (Special Provisions) Act, No. 33 of 2002.

While the Ceylon Petroleum Corporation (CPC) was responsible for almost all the activities in the downstream petroleum industry, over time the industry has undergone structural reforms with its activities in lubricant oil, liquefied petroleum gas and marine fuel being unbundled, privatized and liberalized. The activities in petroleum fuels have also been reformed with the entry of a second player and unbundling of principle facilities in distribution and supply. The CPC still retains monopoly rights in the importation and refining of crude oil as well as importation, exportation, sale supply and distribution of aviation fuel.

In view of the above, there are a number of different markets within the industry with varying degrees of competition and minimal or no regulatory oversight. Thus, there is no mechanism for protecting the interests of consumers by regulating prices as well as quality of products and services. Non-transparent and unfair pricing, substandard and adulterated products, non-availability and in-accessibility of products, inaccurate dispensing of products, unsafe product handling, absence of consumer redress mechanisms are problems affecting consumers especially in petroleum fuels.

Presently, the Minister in charge of the subject of Petroleum has overall powers to regulate the downstream petroleum industry. However, the operations of market participants are not monitored and regulated properly. In view of the above, a new regulatory framework is to be established under purview of the Commission. Towards this end, amendments to the Petroleum Products (Special Provisions) Act, No. 33 of 2002 have been prepared by the Ministry of Petroleum Resources Development.

Issues

1. Quality

- a. There have been reports of substandard petroleum fuels being sold causing damage to automobiles and machinery and questions raised regarding higher prices being charged for petroleum fuels marketed under non-generic names claiming to meet higher specifications sans independent verification and assurance. In order to address issues related to the quality of petroleum fuels, first and foremost, national standards for petroleum fuels need to be promulgated.
- b. There have also been reports of petroleum fuels being adulterated by mixing

kerosene with petrol and diesel, as a result of the large price differential between prices of petrol and diesel versus kerosene which is highly subsidized. In order to address this issue, policy recommendations can be made to the Government to:

- i. Mandate the addition to kerosene of a “marker” chemical, where presence of the marker can be detected by a portable hand held field instrument. If the presence of the marker is shown in petrol or diesel when tested it would be conclusive proof that those products have been adulterated with kerosene.
- ii. Price kerosene at its correct market value and grant targeted subsidy to deserving people such as Samurdhi recipients or for a specific user group such as fishing boat operators. This will also stop the use of subsidized kerosene for purposes other than cooking and lighting etc.

2. Availability

- a. Consumers in some areas need to travel long distances to obtain fuels due to the absence of a retail outlet within a reasonable distance. Also, the level of services provided by retail outlets is not uniform with many outlets lacking basic amenities. These can be resolved by promulgating guideline on placement of retail fuel outlets and services that should be provided, taking into consideration viability of existing as well as new retail outlets, access to petroleum fuels and improved customer services – proposed guidelines are attached.
- b. In addition, consumers in some areas are inconvenienced due to a large number of existing retail fuel outlets not selling kerosene having to travel long distances to obtain kerosene. This can be resolved by promulgating guidelines to mandate that all fuel retail outlets must sell kerosene or alternatively sell kerosene through kerosene only stations, with a subsidy being granted to the licensees if kerosene should be sold below market price.

3. Quantity

There have been reports of consumers being sold incorrect measure of petroleum fuels due to deliberate maladjustment or malfunction of the metering pumps at the retail outlets. This can be resolved by mandating that the metering pumps at retail outlets be checked and calibrated at a regular interval by the Weights & Measures Department in the presence of an independent inspector from relevant regulatory agency or agencies.

Consultation

In view of the above, the Public Utilities Commission of Sri Lanka (PUCSL) wishes to obtain comments from any person or group of persons who may be affected or are likely to be affected by the proposed remedies that the PUCSL intends to recommend to the Government.